

Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 PA-02 PRS-01 ABF-01

FSE-00 A-01 OPR-02 EUR-12 AGR-10 STR-04 /099 W

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P R 021954Z JUN 75

FM AMEMBASSY BRIDGETOWN

TO SECSTATE WASHDC PRIORITY 8938

INFO AMEMBASSY GEORGETOWN

AMEMBASSY KINGSTON

AMEMBASSY PORT OF SPAIN

UNCLAS BRIDGETOWN 0884

E.O. 11652: N/A

TAGS: EGEN ECON ETRD EFIN BB

SUBJ: BARBADOS TO PEG CURRENCY TO US DOLLAR

REF: BTN 0130 (1/22/74)

1. PM BARROW, DURING UNPRECEDENTED "STATE OF ECONOMY" ADDRESS BROADCAST MAY 30 ANNOUNCED INTER ALIA THAT HE HAD INFORMED FELLOW CARICOM FINANCE MINISTERS OF HIS INTENTION TO FIX PARITY OF BARBADOS DOLLAR IN TERMS OF US DOLLAR RATHER THAN POUND STERLING. (BARROW'S EXTENSIVE COMMENTS ON ECONOMY AND EMPLOYMENT GENERATING MEASURES WILL BE REPORTED SEPTEL). PM STATED THAT RATE OF EXCHANGE WOULD BE FIXED FOLLOWING CONSULTATION WITH CARICOM PARTNERS GUYANA AND TRINIDAD.

2. BARROW SET FORTH REASONS FOR DECISION AS FOLLOWS:

(A) STEADY DECLINE OF STERLING VIS-A-VIS OTHER NON-COMMUNIST TRADING CURRENCIES; (B) UK RENUNCIATION OF STERLING GUARANTEES; (C) CHANGE IN BARBADOS' TERMS OF TRADE; (D) SUGAR PRICES IN EC BEING CALCULATED IN UNITS OF ACCOUNT RATHER THAN STERLING; (E)

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ANTICIPATED WORSENING OF STERLING'S POSITION.

3. PM'S MOVE COMES JUST 16 MONTHS AFTER EMBASSY PREDICTIONS THAT SHIFT TO US DOLLAR AS INTERVENTION CURRENCY WAS UNDER ACTIVE CONSIDERATION. (REFTEL). APPARENTLY BUOYANT POSITION OF STERLING IN MID-1974 AND EXTENSIONS OF STERLING GUARANTEES TO DECEMBER 31, 1974 PROMPTED GOB TO DELAY DECISION TO SWITCH UNTIL NOW.

4. SHIFT TO US DOLLAR PEG MAKES SENSE FOR BARBADOS, AND WILL PROBABLY CONTRIBUTE TO IMPROVED ECONOMIC CONDITIONS. BULK OF ISLAND'S LIABILITIES ARE IN US AND CANADIAN DOLLARS AND US/CANADA ACCOUNTED FOR 54.5 PERCENT OF BARBADOS' TRADE IN 1973 AND EVEN LARGER PERCENTAGE IN 1974. GOB HAS SUBSTANTIAL US DOLLAR HOLDINGS AND US DOLLAR PEG WOULD HAVE IMMEDIATE EFFECT OF MAKING IMPORTS FROM US, CANADA AND UK CHEAPER WHILE AVOIDING FURTHER DECLINES WITH STERLING.

5. MOST COMMERCIAL BANKS WELCOMED MOVE, ESPECIALLY US BANKS WHICH WILL BE ABLE TO BORROW FROM NEW YORK MONEY MARKET AT MUCH LOWER RATES THAN THEY HAVE BEEN PAYING IN LONDON IN RECENT TIMES. DOLLAR PEG WILL ALSO MAKE SETTLEMENTS EASIER WITH NORTH AMERICAN CREDITORS AND WILL ELIMINATE FEAR OF EXCHANGE LOSSES WHICH HAS BEEN FACT OF LIFE FOR BARBADOS' BUSINESSMAN SINCE LATTER PART OF 1974. ANOTHER ADVANTAGE TO SWITCH IS THAT IT MAY BRING BACK SOME OF FUNDS WHICH DEPARTED BARBADOS PRIOR TO ISSUANCE OF NATIONAL CURRENCY.

6. SPECULATION HERE IS THAT BARROW WILL NOW ATTEMPT TO PERSUADE GOTT, GOG TO SHIFT SIMILARLY TO US DOLLAR TIE. WHILE SUCH A MOVE WOULD BE LOGICAL IN TERMS OF PRESENT TRADING PATTERNS AND FINANCIAL CONDITIONS, IT IS NOT POSSIBLE FOR US TO DETERMINE READINESS OF THESE GOVERNMENTS TO UNDERTAKE SUCH A MOVE AT PRESENT TIME. BRITTON

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Message Attributes

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